

**REPORT OF THE AUDIT OF THE
OWEN COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

April 14, 2003



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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable William O'Banion, Owen County Judge/Executive

Honorable Zemer Hammond, Owen County Sheriff

Members of the Owen County Fiscal Court

The enclosed report prepared by Kapp & Company, PLLC, Certified Public Accountants, presents the Owen County Sheriff's Settlement - 2002 Taxes as of April 14, 2003.

We engaged Kapp & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Kapp & Company, PLLC, evaluated the Owen County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
OWEN COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

April 14, 2003

Kapp & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for Owen County Sheriff as of April 14, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$ 3,024,894 for the districts for 2002 taxes, retaining commissions of \$ 118,100 to operate the Sheriff's office. The Sheriff distributed taxes of \$ 2,905,299 to the districts for 2002 Taxes. Refunds of \$ 436 are due to the Sheriff from the taxing districts.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Kapp & Company, PLLC
Certified Public Accountants &
Business Advisors

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Independent Auditor's Report

We have audited the Owen County Sheriff's Settlement - 2002 Taxes as of April 14, 2003. This tax settlement is the responsibility of the Owen County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Owen County Sheriff's taxes charged, credited, and paid as of April 14, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 8, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky

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Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable William O'Banion, Owen County Judge/Executive

Honorable Zemer Hammond, Owen County Sheriff

Members of the Owen County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -
August 8, 2003

OWEN COUNTY
ZEMER HAMMOND, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

April 14, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 359,028	\$ 410,318	\$ 1,470,305	\$ 384,673
Tangible Personal Property	11,985	14,582	41,723	25,224
Intangible Personal Property				16,604
Increases Through Exonerations	69	79	284	74
Franchise Corporation	71,145	85,694	251,579	
Additional Billings	150	171	613	162
Penalties	3,495	4,002	14,249	3,932
Adjusted to Sheriff's Receipt	(18)		(41)	(49)
Gross Chargeable to Sheriff	<u>\$ 445,854</u>	<u>\$ 514,846</u>	<u>\$ 1,778,712</u>	<u>\$ 430,620</u>
<u>Credits</u>				
Exonerations	\$ 1,053	\$ 1,204	\$ 4,306	\$ 1,141
Discounts	4,787	5,484	19,501	5,589
Delinquents:				
Real Estate	12,564	14,359	51,452	13,461
Tangible Personal Property	204	249	711	541
Uncollected Franchise	1,511	1,692	5,329	
Total Credits	<u>\$ 20,119</u>	<u>\$ 22,988</u>	<u>\$ 81,299</u>	<u>\$ 20,732</u>
Taxes Collected	\$ 425,735	\$ 491,858	\$ 1,697,413	\$ 409,888
Less: Commissions *	<u>18,381</u>	<u>20,904</u>	<u>61,107</u>	<u>17,708</u>
Taxes Due	\$ 407,354	\$ 470,954	\$ 1,636,306	\$ 392,180
Taxes Paid	407,149	470,719	1,635,472	391,959
Refunds (Current and Prior Year)	<u>264</u>	<u>302</u>	<u>1,080</u>	<u>285</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (59)</u>	<u>\$ (67)</u>	<u>\$ (246)</u>	<u>\$ (64)</u>

The accompanying notes are an integral part of this financial statement.

OWEN COUNTY
ZEMER HAMMOND, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES
April 14, 2003
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,317,481
3.6% on	\$	1,697,413

** Special Taxing Districts:

Library District	\$	(25)
Health District		(16)
Extension District		(19)
Soil District		<u>(7)</u>
Due Districts or (Refunds Due Sheriff)	\$	<u><u>(67)</u></u>

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS

April 14, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of November 8, 2002, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENTS
April 14, 2003
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 22, 2002 through April 14, 2003.

Note 4. Interest Income

The Owen County Sheriff earned \$ 1,199 as interest income on 2002 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of August 8, 2003, the Sheriff owes \$ 95 in interest to the school district.

Note 5. Sheriff's 10% Add-On Fee

The Owen County Sheriff collected \$ 20,892 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Owen County Sheriff collected \$ 2,800 of advertising costs and \$ 470 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 7. Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2002 taxes, the Sheriff had \$ 175 in unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENT AND RECOMMENDATION

OWEN COUNTY
ZEMER HAMMOND, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

April 14, 2003

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. However, the lack of segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically agree daily tax collections totals to receipts ledger and deposit slip.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled.
- The Sheriff should agree monthly tax reports to receipts ledger and disbursements ledger.

These reviews should be indicated with the Sheriff's initials.

County Sheriff's Response:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Owen County Sheriff's Settlement - 2002 Taxes as of April 14, 2003, and have issued our report thereon dated August 8, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Owen County Sheriff's Settlement - 2002 Taxes as of April 14, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Owen County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script that reads "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -
August 8, 2003

